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BRAZIL: U.S. STRATEGY FOR THE YEAR 2000

BY

LTC WILLIAM D. BRISTOW, JR., OD AND LTC DALE E. PEYTON, SC

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Brazil is a struggling nation, both politically and economically, as she attempts to awaken from her sleeping giant posture. Brazil sees her destiny as that of an autonomous emerging world power, but the tremendous foreign debt, hyper-inflation, and multitude of social ills threaten to be the cause of her fragile democracy's downfall. Her global diplomatic strategy is economically oriented as she courts both communist and non-communist countries for technology transfers and markets for her products which include

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a long line of military hardware. Brazil's democratic future depends upon her current political leadership's ability to stabilize and correct these problems before the military assumes control. Future United States' strategy with Brazil should be improved International Military Education and Training assistance, influencing the international money markets to restructure Third World debt in the interest of all, and the opening of trade restrictions. Politically, the "special relationship" between the two countries must be revitalized with the United States recognizing Brazil as a sovereign nation and not as a surrogate. Since Brazil's role as a world power lies in the future, the United States must continue to strengthen and cultivate a friendship with this democratic country.

USAWC MILITARY STUDIES PROGRAM PAPER

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BRAZIL: U.S. STRATEGY FOR THE YEAR 2000

A JOINT STUDY PROJECT

by

LTC William D. Bristow, Jr., OD and LTC Dale E. Peyton, SC

Colonel John D. Waghelstein
Project Advisor

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BRAZIL: U.S. STRATEGY FOR THE YEAR 2000

CHAPTER I

INTRODUCTION

For several decades the term "sleeping giant" has been almost synonymous with the country of Brazil. Surely the fifth largest country in the world and the sixth largest population would qualify for the term "giant." The vast natural resources of the country would further support the concept of a potential world power. Brazil shares borders with all but two of the countries in South America and sits in a perfect location to potentially influence, if not control, the South Atlantic Ocean. All of these factors would certainly give credence to the notion of a potential world power and that has been the way that she has been viewed for years, yet the "giant" is still snoring.

Brazil's potential on the international and hemispheric scenes has been, and will continue to be, tempered by the enormous internal problems that have diluted the strength that was suggested in the opening paragraph. These problems will continue to occupy the Brazilian leadership into the next century. These problems are primarily economic and social and are widespread and deep seated despite the gains that Brazil is making in the industrial sector. The World Bank reports that Brazil currently possesses the largest inequities of wealth distribution in the world. "The richest one percent of the population earns as much as the poorest 50 percent."[1]

Another significant problem that has faced the government for several years has been the difficulty in paying its international debts. Current debt is US$115 billion which makes Brazil the largest debtor in the developing world.[2] Much of the difficulty in servicing the debt resulted from the devastating effect of the oil price hikes by OPEC in the 1970s. This disaster occurred as the country attempted to capitalize on its potential and create the industrial base that would fulfill its economic destiny. Compounding the external debt issue is the hyperinflation which in 1988 soared to 933 percent.[3] As with many other developing nations, these problems are not unique to Brazil but they do present challenges for U.S. policy makers in their attempt to develop a future, viable strategy.

Traditionally, Brazil has been viewed by U.S. diplomats as being distant and with few problems. With Brazil's transformation, both internally and in the international arena, the U.S. cannot afford to continue taking Brazil for granted.

The purpose of this paper is to examine Brazil, demonstrate her strengths and weaknesses and the reasons for the lack of fulfillment of her potential. It will assess her strategic potential and, more importantly, her role in the politics and stability of both Central and South America. Finally, this paper will focus on U.S. - Brazilian relations and will suggest a strategy for the 21st Century.

ENDNOTES

1. "Rich and Poor a Door Apart," Insight, 17 August 1987, p. 18.

2. "Brazil Acts to Fight Inflation," New York Times, 16 January 1989, p. D6.

3. Eugene Robinson, "Brazil Devalues by 17 Percent, Announces Wage Price Freeze," Washington Post, 16 January 1989, p. 1.

CHAPTER II

THE ECONOMY OF BRAZIL

Brazil is larger than the contiguous 48 states of the United States or Western Europe, and is endowed with great amounts of most of the natural resources known to the modern world. Only eight countries exceed Brazil in the absolute value of its industrial production. Significant portions of the country are relatively unpopulated and vast amounts of natural resources remained untapped.[1] Poverty is widespread in Brazil which possesses the world's largest inequities of wealth distribution.[2] The richest one percent earns as much as the poorest fifty percent of the population.[3] Two-thirds of the population is considered malnourished while the country is a major agricultural exporter.[4] Large segments of the population have migrated to the cities in search of jobs that are not available or that the workers are not prepared for. These people are then stranded in the cities that are ill prepared to care for them and create sprawling slums on the hillsides on the outskirts of the major cities. The government has estimated that seven million children have left or have been abandoned by their families and now live on the streets.[5]

With all of these problems the government is further saddled with a large and costly debt that drains much of their foreign currency to pay the interest and diminishes the

country's capability to receive further loans which are required to exploit the vast natural resources that lie in the interior of the country.

ARMS PRODUCTION

Arms production has become a major industry in Brazil and is continuing to grow. The industry began in the 1960s with the production of rifles, pistols, and machine guns under licenses from Belgium, Italy, the United States and others.[6] When the military/technocrats took control in 1964, they were convinced that Brazil was en route to becoming a first rate world power and they encouraged the development of the domestic arms industry. However, they were also wise enough to recognize that the Brazilian Armed Forces would not constitute a large enough market to support this industry. It was therefore necessary and desirable from a balance of trade perspective to export arms. Brazil launched a major sales effort and has cornered about ten percent of the world's market and now ranks as the fifth largest arms exporter in the world.[7] Brazil has the reputation for producing high quality equipment of moderate technological complexity and, most importantly, is willing to sell without any of the political considerations that influence arms sales from the United States or the Soviet Union.[8] Brazil has sold military equipment to about 50 countries throughout the world. Most of the sales have been to

Third World countries, however even the United States has tested some armored vehicles for procurement for the Rapid Deployment Force.[9]

Brazil is currently producing a wide range of military equipment. Armored vehicles are produced by Engesa, the largest producer of wheeled vehicles in Latin America. The Urutu, an amphibious armored personnel carrier, was used by Iraq in the war with Iran and performed well.[10] Engesa recently sold 2000 military trucks to the Angolan Army. Embraer is one of the top ten aircraft producers in the noncommunist world and produces civilian as well as military aircraft. The Banderante, a general purpose military aircraft, is in use in its civilian version by several feeder airlines in the United States. Brazil also produces jet trainers and is developing supersonic aircraft.[11] Smaller companies are also producing helicopters, frigates (Brazil currently ranks second among the world's shipbuilders), rockets and missiles, and has undertaken a program to recondition old tanks. This program has primarily focused on refurbishing the World War II American tanks in its own army but visiting delegations, to include the Chinese, have expressed an interest.[12]

BALANCE OF PAYMENTS

Without question, the overriding concern in the Brazilian economy is the foreign debt. There are many reasons why the debt has grown so large and why the government is having such difficulty in reducing it. One major problem is an obese

bureaucracy that stifles growth. There are approximately eight million government employees and total federal, state and municipal spending, when coupled with the state companies activities, makes up more than half of Brazil's Gross Domestic Product (GDP).[13]

Another significant factor has been the reliance on imported oil and the impact of the oil crises of the 1970s. Despite the country's abundant natural resources, Brazil has very little oil. Oil wasn't discovered until 1939 and proven oil reserves were only about 1.7 billion barrels in 1982.[14] In May 1988 the government announced the discovery of an estimated 18 to 20 billion barrels in northern Brazil, near the mouth of the Amazon River.[15] The country in 1981 consumed about one million barrels per day and produced about 250,000 barrels per day therefore leaving a requirement of 75 percent of the daily requirement that had to be imported. In 1981 Brazil spent over US$11 billion on imported fuel. This was 50 percent of total imports.[16] By 1987, although domestic production had increased to 215 billion barrels per year, imports still exceeded 227 billion barrels per year.[17]

In an effort to reduce her reliance on imported oil, Brazil intensified her efforts to substitute domestic alcohol for gasoline in vehicle use. The plan was to supply 45 percent of projected automobile use by 1985 with gasohol. Actual production fell short of the goal but Brazil remains a world

leader in this field, although, with the oil price reductions of the early 1980s, interest in gasohol appears to have subsided.[18]

The strategy of the government has been to borrow to maintain economic growth in time of negative trade balance. This strategy was unable to cope with the massive increases in the price of imported oil that was required to sustain economic growth. In 1974, the year of the first oil price increases, the trade imbalance was US$4.7 billion.[19] Indebtedness has since grown from US$5.3 billion in 1970 to US$115 billion in 1989.[20] Interest payments rose from US$234 million in 1970 to US$15 billion in 1989.[21] During the 1970s, despite her worsening balance of trade picture as well as her increasing debt, Brazil was able to get whatever financing she desired. By 1982, however, Brazil was experiencing great difficulty in obtaining necessary funding and was widely considered to be in jeopardy of defaulting on some of its loans. In 1987 the government declared a moratorium on its foreign debt interest payments. Payments were not resumed until July 1988 after the Paris Club of international creditors refinanced US$3.8 billion in principal and US$1.1 billion in interest payments over a ten year period. As a measure of good will Brazil paid US$1 billion in interest payments, representing its first payment since early 1987.[22]

Early in 1989 President Sarney, faced with presidential elections at the end of the year and concerned with the future of the country's four year old civilian government, announced

sweeping economic changes designed to slow the rate of inflation that reached 933 percent in 1988.[23] Changes included devaluing the cruzado by 17 percent in relation to the dollar. Prices and wages were frozen. Other measures included laying off 60,000 public employees and closing four ministries and 42 state run businesses. These measures were taken less than three years after Sarney replaced the cruzeiro with the cruzado. During this period the cruzado's worth decreased from 14 to the dollar to more than 1500 to the dollar.[24]

Recently the outlook has improved although clearly the economy is still not on sound footing. Growth, following the recession of 1981-1983, has been in some cases spectacular but not sustained (in 1985 and 1986 growth rates of over eight percent were reported, but 1988 is only forecast to be two percent). The government argues that despite the rate of inflation, industrial output is up, consumption is expanding, the trade surplus is increasing and unemployment is decreasing. Others argue however, that these indicators are typical of economies on the verge of hyperinflation. Clearly, however, the focus of the Brazilian leadership and the key to the future lies in restoring the health of the economy. Until that happens, Brazil's emergence as a world power will have to be placed in abeyance.

ENDNOTES

1. Richard F. Nyrop, et al., Brazil, A Country Study, p. 159.

2. "Rich and Poor a Door Apart," Insight, 17 August 1987, p. 18.

3. Ibid.

4. Ibid.

5. Ibid.

6. Nyrop, p. 303.

7. Julian M. Chacel, et.al., Brazil's Economic and Political Future, p. 250.

8. Nyrop, p. 304.

9. Ibid.

10. Ibid.

11. Ibid., p. 306.

12. Ibid., p. 307.

13. "Brazil's Dream Remains on Hold," Insight, 17 August 1987, p. 11.

14. Nyrop, p. 182.

15. "Brazil Finds New Reserves," The Times of the Americas (Washington), 27 July 1988, p. 12.

16. Nyrop, p. 182.

17. Inter-American Development Bank, Economic and Social Progress in Latin America, 1988 Report, pp. 596-597.

18. Nyrop, p. 184.

19. Ibid., p. 230.

20. "Brazil Acts to Fight Inflation," New York Times, 16 January 1989, p. D6.

21. Ibid.

22. "Brazil, Paris Club of Creditors Come to Terms on Debt Package," The Times of the Americas (Washington), 10 August 1988, p. 14.

23. Eugene Robinson, "Brazil Devalues by 17 Percent, Announces Wage-Price Freeze," Washington Post, 16 January 1989, p. 1.

24. Ibid.

CHAPTER III

POLITICAL ASSESSMENT

The current democratic government is facing tremendous political and economic problems. President Jose Sarney's administration must face the economic realities and present a political solution to the staggering US$115 billion external debt and runaway inflation threatening their short democratic existence.[1] Democracy's success in Brazil depends on developing the political clout to overcome the growing financial burden. Unless this is solved in the near term, the likelihood of the military returning to power or radicalization remain probabilities.[2]

CURRENT POLITICAL SITUATION

In early 1985 President Sarney, the first civilian head of state in 21 years, inherited an ongoing political, economic, and social crisis that needed attention. The legal and political frame-work of 21 years of military rule needed immediate reform.

Servicing the foreign debt and rising inflation were the major political issues. Trade surpluses were required to pay the foreign debt interest. A three year recession and widespread unemployment compounded the problem and added to the social misery for some 30 million Brazilians. The combination of high unemployment, decline in real value of salaries, rising

crime rate, as well as increases in infant mortality, hunger and malnutrition, and disease threaten the country's stability.[3]

In November 1986 Brazil's democratic political future was strengthened by the first free nation-wide elections held under a civilian government since 1962. The Brazilian electorate, totalling more than 69 million, elected all the state governors, two-thirds of the Senate, three-fourths of the lower house (Chamber of Deputies), and the state legislatures. This election mandated a Congress that would function the following year as a Constituent Assembly to write a new constitution. The voting resulted in a sweeping victory for President Sarney's governing "Democratic Alliance," composed of the PMBD and the Liberal Front Party (PFL), and provided a popular mandate.[4]

In less than two years however, the Brazilian roller-coaster economy and charges of administrative corruption caused the populace to lose confidence in the administration. A November 1988 public opinion survey showed President Sarney with a record low five percent approval rating. This deepening popular dissatisfaction stems from growing deterioriation of civil order and reflects the government's inability to slow the escalating inflation rate as well as her failed economic policies.[5]

Public dissatisfaction was expressed in the November 1988 municipal elections as the ruling PMBD party experienced heavy election losses. Many officials are now beginning to distance

themselves from the PMBD as rumors persist that the PMBD party will split from President Sarney. The recent elections provided gains to the leftist Worker's Party (PT) and the Brazilian Democratic Party (PDT), as well as strengthened their respective presidential candidates for the upcoming November 1989 presidential ballot.[6]

BRAZIL'S NEW CONSTITUTION

On 5 October 1988, Brazil promulgated a new constitution which replaced the 1969 Constitution that had been the legal base for the previous 21 years of military rule.[7] The constitution provides for freedom of the press and assembly and specifies that political crimes cannot be a basis for extradition or depriving localities of revenues. It transfers power from the president to the Congress and abolishes presidential decree laws which had allowed the president to bypass the Congress. The presidential term has been established at five years with direct elections for that office. Additionally, Brazil becomes the only South American republic allowing 16 year olds the right to vote.[8]

Congress has assumed responsibilities for appropriating federal monies, establishing budgetary and economic decisions, and has given municipalities taxation power. Congress has thus removed from the executive branch any flexibility in renegotiating the gigantic foreign debt with the International

Monetary Fund. Now the five political parties within the Congress, with much in-fighting, will be speaking for Brazil's economic future.[9]

Liberals backed social issues that reduced the work week to 44 hours, promised day care facilities for children under six, indexed social security benefits, and provided stringent environmental measures. The right-of-center coalition backed constitutional forums that protected large land owners by restricting land reform as well as strengthened the military's internal security role to independently assure law and order.[10]

POLITICAL FUTURE

The next major Congressional step will be to revise Brazil's legal code to be in line with the constitution and provide for a just enforcement. Any threat to the constitution's existence will probably come from the radical left or the obstructive elite and the military leadership who have grown accustomed to power.

With political and economic tensions continuing to rise, President Sarney must control the debt if he is to stabilize Brazil's fluctuating, fragile economy. A strong political plan should shore up the country's economy which, in turn, should provide the foundation for a strong democratic government. Should he fail, the military is very likely to return to power.

ENDNOTES

1. "Brazil Acts to Fight Inflation," New York Times, 16 January 1989, p. D1.

2. Eul - Soo Pang, "The Darker Side of Brazil's Democracy," Current History, January 1988, pp. 21 - 22.

3. Jose Sarney, "Brazil: A President's Story," Foreign Affairs, Fall 1986, pp. 107 - 108.

4. Ronald M. Schneider, 1986 Brazilian Elections: Post Election Report, p. 5.

5. Wendy Zimmerman, "Brazilian Democracy in the Balance," The Times of the Americas (Washington), 30 November 1988, p. 7.

6. Ibid.

7. John Burstein and Nina L. Gardner, "Constitution Opens New Era in Brazil," The Times of the Americas (Washington), 5 October 1988, p. 7.

8. Ibid.

9. Marvin Alisky, "About That Brazilian Constitution," The Times of the Americas (Washington), 5 October 1988, p. 7.

10. Burstein, p. 9.

CHAPTER IV

THE MILITARY IN BRAZIL

There is a popular saying that "In Brazil there are two (political) parties: the army and the church."[1] While it can be argued that this statement speaks more to the lack of strong political parties, it also speaks to the deep-seated, close relationship between the army and the political leadership in Brazil. Even prior to the military coup that overthrew President Goulart in 1964, the military was a strong voice that was deeply involved in all aspects of the political and economic leadership of the country. What has separated Brazil and the Brazilian Army from her South American neighbors has been the tendency of the army to take action and then return to the barracks. The coup of 1964 wherein the military (led by the army) remained in power until 1985 was an aberration from the traditional role of the Brazilian military.

MILITARY EXPENDITURES

Given the size and economic development of the country, Brazil devotes very little of her national wealth to the armed forces. This has been true even during the years of military rule. For example, from 1972 to 1983, Brazil's military expenditures (expressed as a percentage of Gross National Product) ranged from 0.7 percent to 1.4 percent while Argentina ranged from 0.8 to 3.9 percent, Chile ranged from 2.3 to 4.9 percent, and Uruguay ranged from 2.2 to 4.1 percent.[2] Also

significant, while the other three countries were spending more in the later years of the survey, Brazil was moving in the opposite direction. The size of the armed forces also reflects this allocation of resources. For example, when calculated against the population of the country (armed forces per 1000 people) from 1972 to 1983, Brazil decreased from 4.1 to 3.5. During the same period, Argentina increased slightly from 5.7 to 5.9, Chile increased from 7.7 to 11.0, and Uruguay increased from 7.1 to 10.3.[3] Although the absolute size of the Brazilian armed forces is larger than any of the other countries in South America, the nation's leadership has made the decision to keep the armed forces relatively small, while maintaining the capability to quickly mobilize the trained manpower that passes through the army each year as conscripts. The lack of a viable external threat supports this strategy. Brazil is also the only country in South America with any real arms manufacturing capability. This further facilitates her mobilization capability.

POST 1985 ROLE OF THE MILITARY

At least one author has speculated on the role of the military following the return to civilian government. Alfred Stepan, in Rethinking Military Politics, has suggested that the Brazilian military may be going through an identity crisis.[4] He maintains that the professional identity of the armed forces, particularly the army, was supplied by the role of the military leaders as the managers of the government during the

more than twenty years of military rule. The focus of these leaders during this period was directed toward economic and social problems. There was some concern that this lack of identity would lead to attempts to recapture power. However, the Brazilian military leadership had their eyes opened by the Falklands War. They were surprised that Argentina was so unprepared to fight a major power. They also realized that, like Argentina, Brazil was unprepared for joint operations and the logistical base that was required to sustain operations in a mid-intensity conflict.[5] The Brazilian Navy also used the Falklands War to point out its shortcomings and the need for additional assets. The navy has also been at the forefront of the argument that Brazil is now a world power, with political and economic interests throughout the world and yet Brazil has almost no capability to project military power.[6]

The armed forces have each prepared modernization plans that address the force structure and equipment necessary to overcome perceived shortcomings. Naval plans include nuclear submarines, air force plans include new air to air missiles and a new generation of fighters and the army wants "greater operational capability."[7] These plans were received with little comment by the civilian government which recognized that military expenditures have been relatively small and were pleased that the attention of the military leadership was internal rather than towards political matters.[8]

U.S. - BRAZILIAN MILITARY RELATIONS

Although relations between the United States and Brazil have seen many peaks and valleys, the United States remains an important economic and political ally of Brazil. The countries have been at odds economically and politically during the past two decades and these events have spilled over into the military relationships. In 1977 the 25 year old military aid agreement between the two countries was severed by Brazil.[9]

Current army-to-army programs are oriented on individuals and do not include any unit exchanges or exercises. Some of the programs are: two U.S. officers attend the Brazilian Army Command and Staff College annually; two medical doctors from Walter Reed are attached to the University of Brasilia to do tropical disease research; two U.S. Army engineers serve two years in Brazilian Railroad and Road Construction Battalions; and eleven U.S. officers spend 30 to 60 days in Brazilian Army units.[10]

Brazilian Army officers also attend similar schools in the United States. For example, two officers attend Command and Staff College annually, one officer attends the U.S. Army War College annually, two officers serve two year tours with the U.S. Army Water Conservation Projects, one officer serves as a language instructor at West Point, and ten officers visit U.S. Army units for 30 to 60 days each year.[11]

These examples illustrate the variety and scope of the program. In addition, there are many conferences, seminars, observers and visits by senior leaders of each country, to include the General Officer Lecture Exchange.

Proposed exchanges include small unit exchanges that would involve the U.S. Army National Guard. Combined Airborne and Ranger exercises at the platoon and company level are also under study. Also being considered is a program to send the Commanding General of the U.S. 1st Infantry Division to a sister Brazilian Army division for a two week period.[12]

Although not highlighted here, exchanges between the navy, air force and marines and their sister services in Brazil reflect the level of cooperation as those of the army. There are two exceptions. The UNITAS Annual Naval Exercise involves the U.S. Navy with the navies of the countries of South America, to include Brazil. The exercise will be run for the 30th consecutive year in 1989. TOPEX 1-87 was also a naval exercise. It took place in June, 1987 and involved the USS Nimitz and the USS California. This was the first joint exercise in nine years outside of UNITAS.[13]

In sum, the military has been an active player on the Brazilian political scene for years but has not been resourced at levels normally expected of a country of its size and wealth. Current concerns with her capability to project power in her perceived role as a world power and her concerns resulting from the Falklands War coupled with the return to civilian control of the government have caused the military

leadership to focus on enhancing the armed forces. Although it would be naive to expect that we can return to the close relationship that existed during World War II, it does appear that there is an opportunity to build upon the growing number of exchanges to develop a relationship, not as it existed, but one of partners concerned with preserving peace through collective strength.

ENDNOTES

1. "Brazil's Dream Remains on Hold," Insight, 17 August 1987, p. 14.

2. Alfred Stepan, Rethinking Military Politics, p. 73.

3. Ibid., p. 74.

4. Ibid., pp. 86 - 92.

5. Ibid., p. 86.

6. Ibid.

7. Ibid., p. 88.

8. Ibid.

9. Richard F. Nyrop, et al., Brazil, A Country Study, p. 283.

10. LTC Pagni, Overview of US-Brazilian Military Personnel Programs and Exchanges - An Update, 25 January 1988, p. 1.

11. Ibid., pp. 1 - 2.

12. Ibid., p. 3.

13. Ibid., pp. 4 - 5.

CHAPTER V

BRAZIL'S FOREIGN DIPLOMACY

Even as Brazil's economic problems compound and accusations of political corruption arise within the PMBD ruling government, President Sarney and his skilled diplomats of the foreign ministry, Itamaraty, are continuing to make in-roads in establishing or improving foreign relations throughout the world. Although the United States-Brazil relationship continues to remain cool, Brazilian leaders have been shaking hands and being warmly greeted in many countries around the world. President Sarney has been making "good will visits" across the globe to improve bilateral trade and technical cooperation with many influential governments. This broadening of international links has ultimately increased and strengthened her determination for autonomy and an independent foreign policy.

NEIGHBORS AND THIRD WORLD COUNTRIES

In the past, Brazil had adopted a low profile in multilateral and bilateral relations with her Latin American neighbors to allay fears of hegemony. Now, Brazilian diplomats maintain warm diplomatic relations with Brazil's Latin American neighbors to improve trade agreements and gain external capital. Brazil's 1978 Amazon Pact was seen as a first step in shifting diplomatic attitudes favoring only the United States and Western Europe to more openly recognizing her South

American neighbors. With this Pact and the signing of a series of bilateral agreements during the early 1980s, Brazil was able to greatly alleviate any of her neighbors' fears concerning expansion.[1]

The long standing rivalry between Brazil and Argentina remains, but has diminished in scope. Argentina still retains a slight fear of Brazil's dominance which could limit future relations. Analysts see long term diplomatic strains coming from each other's acquiring nuclear technology and the possible development of a nuclear weapon by one or the other.[2]

Another source of competition is influence over the smaller buffer states of Uruguay, Paraguay, and Bolivia. Brazil has made great diplomatic and economic gains with these nations. The building of the Itaipu Dam, the largest hydroelectric project in the world, on the Rio Parana River bordering Paraguay has regional political and economic significance. Brazil is selling electricity to Paraguay as well as buying land in western Paraguay. Analysts foresee using the dam's security as a possible reason for Brazilian intervention in Paraguay in the case of future civil unrest there.[3]

Brazil's diplomatic efforts include the Middle East, Southeast Asia, and Africa where there are major military equipment marketing efforts. The Iraqis are currently negotiating tank and aircraft sales worth US$300 million with two of Brazil's leading arms manufacturers, Engesa and Embraer.[4] Tank, truck, anti-tank and anti-aircraft missiles,

and aircraft sales continue to play major roles in Brazil's relationship with Libya, Angola, Guana, United Arab Republic, Saudi Arabia, and Qatar.[5]

Since many Middle East countries are oil producers, oil becomes a primary trading commodity in exchange for Brazil's military hardware. This oil-for-arms trading is the backbone of Brazil's foreign relations with many Third World countries and is expected to continue well into the future.

THE UNITED STATES

United States - Brazilian diplomatic relations started in 1824 when the U.S. recognized Brazil's independence and continued to grow through World War II.[6] This strong relationship began to deteriorate after the war when political and economic friction developed. On a worldwide basis, the United States defended the basic freedoms of democracy which Brazil continued to suppress. Brazil's request for preferential trade and economic aid were ignored as Washington was more concerned with the Marshall Plan and Europe.[7] By the end of the 1960s, relations again cooled as Brazil condemned the U.S. role in Vietnam and continued to deteriorate through the Carter Administration over human rights and nuclear proliferation issues.[8]

The Reagan Administration made an effort to improve relations through reciprocal state visits, by sending a special emissary (General Vernon Walters) to Brazil, and by easing nuclear fuel transfer restrictions. As with the previous

administrations, U.S. concerns were to gain Brazilian cooperation over issues in the South Atlantic, Central America, Cuba, and over East-West policies in general. Brazil would like Washington to greatly assist in improving the terms of her massive foreign debt as well as helping to expand her export market to advanced industrial nations. On these issues, Washington remains unresponsive.[9]

During the latter half of 1988, several Washington related issues surfaced which caused consternation in the Sarney Administration. The United States accused Brazil of U.S. pharmaceutical and chemical patents piracy and then imposed economic sanctions against many of her products. Analysts believe Brazil will conform in the near term to the recognition of international patent infringement laws, if she can save face in doing so. This is expected to assist in opening the Brazil - U.S. computer technology transfer between IBM and Brazil's SID computer firm.[10]

Another issue concerns Brazil's space program and the scheduled launch of the Sonda IV missile. The launch postponement came a week after former U.S. Defense Secretary Frank Carlucci's visit to Brasilia. Carlucci commented that the U.S. was concerned about Brazil's rockets and the uncontrolled missile proliferation which could aggravate regional tensions. The Brazilian military views the United States wanting Brazil to concentrate on intermediate technologies and fill the voids left by the more advanced

countries (U.S. and USSR). Washington is concerned that missiles will become a part of Brazil's large weapons export industry.[11]

Two other factors emanating from Brazil continue to provide growing concern in Washington. One is drug trafficking out of Brazilian port cities and the other is the ecological impact on the environment resulting from Brazilian deforestation. Although Brazil is not a major Latin American narcotic producer or consumer, narcotrafficking is on the rise and will figure more prominently in future international relations.[12]

The other developing problem is the Amazon Basin's deforestation resulting from opening the interior to development. This effort to accommodate the poor majority and encouraging their inward migration has created the subsequent destruction of the rain forest. This "slash and burn" farming has ecological experts estimating 20 percent of the rain forest has already been destroyed which has created an environmental holocaust.[13] Further complicating the global picture is the atmospheric greenhouse effect being aided by the massive deforestation. Developing the Amazon is seen by the Brazilian government as a means to bolster their economy and is envisioned to continue well into the future.[14] This, like the international narcotrafficking, will become increasingly contentious issues between the two countries.

The "special diplomatic relationship" the United States and Brazil shared is slipping. The perennial, sleepy giant has habitually leaned toward the West, but Washington's ambivalent attitude is causing the "special relationship" quality to rapidly fade. Whereas in the past, both countries were fairly aligned, cooperated in foreign policy, and stood together over many international issues, today it is questionable.[15] Brazil is a developing country with a multitude of problems, knows the problems are serious, and is going through a global search seeking solutions. Since the massive external debt and hyperinflation rates are threatening her democratic existence, now is the time for the United States to determine its role in securing that existence.

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5. John Caulfield and Ralph Sanders, Brazil as a Mobilization Source, p. 12.

6. Abraham F. Lowenthal, Brazil and the United States, pp. 42 - 43.

7. Ibid., p. 46.

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9. Ibid., p. 51.

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14. Ibid., p. 786.

15. Lowenthal, p. 42.

CHAPTER VI

STRATEGIC ANALYSIS

As Brazil has expanded her economic horizons in pursuit of markets for her increased industrial production, her worldwide interests have likewise expanded. At times, her interests have been at odds with those of the United States. Brazilian interests have been primarily economic while the U.S. interests have been political.

BRAZILIAN INTERESTS

Brazilian interests in the world are driven primarily by economic considerations and stability in the Latin American region. Currently economic considerations consist of opening new markets and increasing exports of Brazilian manufactured goods. Tied very closely to the expansion of economic markets is the reduction and elimination of trade barriers that keep Brazilian goods from being competitive in certain world markets. Brazil recognizes that economic growth is the best strategy for solving the economic problems currently associated with the external debt and the accompanying servicing costs. This strategy is also appropriate for long term growth and resolving the social problems that confront the government. These problems include unemployment, homelessness, poverty and, essentially, disenfranchisement of a large segment of Brazilian society. Any factor which seeks to retard this economic growth is not in Brazil's interest. This interest is not restricted

to the South American continent or to the Americas. Brazil sees the world as the marketplace for her goods and has shown little concern about the political beliefs of her trading partners. For example, she has quickly moved into the voids left by superpowers in the sale of military goods to the Third World.

Brazil is also interested in stability in the Latin American region. She perceives no external threat to her borders now and for the foreseeable future. In this regard it is in the interest of the country that there be no further communist infiltration in the region. Any increase would cause a shift in resources toward the Brazilian military. This, in turn, would slow economic growth and resolution of current economic and social problems.

Brazil is less concerned about the superpowers except for the opportunity their struggle provides Brazil as the object of courtship. Recent overtures from the communist leadership illustrate this well. Brazil would only be concerned if the superpowers were to infringe on Brazil's economic activities.

U. S. INTERESTS

U.S. interests in Brazil are more pervasive than are Brazil's interests in the United States. Brazil is interested in trade expansion, in the elimination of trade restrictions, and in U.S. assistance in debt reduction. Brazil is

particularly interested in the reduction of the U.S. debt because the size of this debt directly influences world wide interest rates and therefore impacts on the Brazilian economy.

U.S. interests in Brazil are essentially the same as in the rest of South America. The United States wants an economically strong Brazil that maintains a fair and healthy trade relationship with the U.S. The United States also wants to protect U.S. investments and loans to Brazil. U.S. policy makers believe a strong economy is the best insurance on those investments. The United States wants to preserve a democratic form of government in the largest country in South America, and one that will remain friendly and in harmony with the interests and policies of the United States. Finally, the United States is interested in maintaining close military relations with the Brazilian Armed Forces based upon training exchanges and exercises as well as treaty obligations.

The United States is also cognizant of the strategic location of Brazil, not only in its relation to the rest of South America, but also for its potential influence on the South Atlantic. Were war to break out in Central Europe, some of the NATO reinforcements would come from the Pacific and the western coast of the United States. Should the Panama Canal be obstructed by enemy action or sabotage, these reinforcements would have to travel around South America and traverse the South Atlantic en route to the European continent. Brazil could be a major factor in the control of this waterway, both

as a naval and air power and as a base for forward deployed U.S. naval and air forces engaged in sea control operations in the South Atlantic.

Other U.S interests in Brazil include the ecology issues surrounding Brazil's development of the Amazon Basin and the increasing drug activities in the interior of the country. The ecology issue has received significant press coverage lately as thousands of acres of forest are burnt each year to open farm land for thousands of settlers who are encouraged to migrate to the interior of the country. The real tragedy of this deforestation is that this land is proving to be unproductive for agriculture and is being abandoned as it is depleted after a few seasons of planting.

Although not usually mentioned when major drug producing countries are discussed, Brazil is becoming a transshipment point for drugs produced in other South American countries. There is also speculation that as pressure increases in the drug producing countries in the region enterprising producers may look to the vast interior of Brazil for hidden production sites for their crops.

CONFLICT OF INTERESTS

As shown above, there are ample opportunities for U.S. and Brazilian interests to conflict, especially as Brazil expands her interests throughout the world. This paper has already discussed the conflicts that disrupted friendly relations in the late 1970s. The Brazilian interest to overcome their

dependency on fossil fuels led them to nuclear energy which ran afoul of the nuclear nonproliferation interests of the United States. Alleged human rights violations of the military government were highlighted by the U.S. Congress in the early 1970s and became a major irritant during the early days of the Carter Administration.

Clearly economics is an area of conflict. U.S. trade barriers, designed to protect endangered U.S. industries, make Brazilian goods less competitive and thus remove a large market for some Brazilian goods.

The U. S. debt is a major problem. The Brazilians view the large U.S. debt as a primary cause of high interest rates. High interest rates raise the cost of new funds needed for growth and debt repayment. The Brazilian government would like stronger U.S. resolve on debt reduction.

The ecological issue referred to above is a conflict that could grow depending on the interest of the new U.S. administration in ecological issues. Currently the issue is being maintained in perspective even though many of the complaints against Brazilian deforestation programs come from ecological groups in the United States.

Political conflicts have surfaced in the past over U.S. involvement in Vietnam and, more recently, U.S. policy in Central America. There is reason to believe that as Brazil expands her economic involvement throughout the world her interests will continue to come into conflict with the interests of the United States.

FUTURE RELATIONS

Our analysis concludes that, without a rejuvenated U.S. policy, the overriding concerns of the Brazilian government will continue to be economic and social. Social reform will depend on the economic capability to correct social deficiencies, create jobs and provide for the millions of slum dwellers that currently live on the fringes of the cities. Economic concerns will drive Brazil to seek expanded trade with nonaligned as well as communist countries. Trade with the U.S. will certainly continue but will diminish as a share of Brazil's total trade because of restrictive U.S. trade policies. Economic growth will continue but will slow due to the austerity programs that the banks require for her debt restructuring. These programs have reduced the import of the capital investment goods necessary for increased industrial growth. The arms industry will flourish with increased sales to any buyer. Enhanced technology will accelerate sales and the government will attempt to maximize earnings with which to pay debt and increase economic growth. The reduction of inflation and the development of a stronger economic infrastructure will both suffer.

Politically, the survival of the current democratic form of government could be short lived. The military leadership will not stand by and allow the government, democratic or not, to continue in the situation described above. The military leadership supports a democratic form of government as evidenced by the peaceful return to civilian control in 1985.

However, a generation of military leaders grew up under the military government and they would be less hesitant than their predecessors to take control if they believed that such a takeover was in the best interest of the country. Should the situation become that critical, our analysis concludes that such a takeover would have the support of the people. The military would have their support because the people would favor any form of government over one which has given them continued unemployment and inflation.

Militarily, the country will continue to underresource the armed forces as long as there is no perceived external threat. The likelihood of an external threat to Brazil is considered remote for the next twenty years.

In sum, with *no* change in U.S. policy over the next ten years and with no appreciable change in the economic forces affecting the country, Brazil will be a different state. The democratic government will have been replaced by a military controlled government that will be more hesitant to return to civilian control than in 1985. The economic and social pressures in the country will be greater, increasing the likelihood of insurgency, and the United States will be a likely scapegoat for the problems of Brazil. The investments of U.S. corporations will be worth less and there will be increasing political pressure to default on international debt, including that owed to U.S. banks.

It is clear that this view into the future does not present a situation that is in the best interest of the U.S. A bolder, more insightful program is therefore required that will assist the Brazilian leadership resolve their problems while concurrently reinstating U.S. influence in the region. This program will be addressed in the next chapter.

CHAPTER VII

RECOMMENDATIONS

As stated previously, U.S. interests in Brazil are the same as in the rest of South America. The United States wants an economically strong Brazil and fair and vigorous trade between the two countries. The United States also wants to protect U.S. investments and loans in Brazil. The United States wants to preserve a democratic government in Brazil and maintain cordial relations with a government that supports the interests and policies of the United States. Finally, the United States is interested in maintaining close military relations with the Brazilian Armed Forces.

The key to Brazil's future and the linchpin in future relations with the United States is the resolution of the economic problems. Until Brazil can overcome the strain of paying the annual interest on her external debt, she will not be able to invest in her continuing industrialization or control the ravages of inflation.

ECONOMIC STRATEGY

Current U.S. economic assistance to Brazil is minimal. The only assistance is in the form of International Military Education and Training (IMET) funds. This policy should be reversed, not only in Brazil but in other democratic governments in the region. This is an ideal opportunity for the United States to not only strengthen the countries of the

hemisphere but also to reassert leadership within the region. This can be accomplished by assisting those democratic countries in the region achieve economic sufficiency.

A "Marshall Plan" for the Americas is the best way for the United States to assist qualified countries in the region resolve their economic problems. A bold and comprehensive program designed to provide long term economic and developmental assistance will demonstrate U.S. resolve to help democratic governments in the region achieve economic self sufficiency. This program will also reassert U.S. leadership in the area by focusing on those problems that are inhibiting the growth and development of those countries. This program would focus on economic assistance, particularly debt and interest reduction, and would provide assistance for social programs while the country is resolving economic issues.

Brazil is an ideal candidate for this program. By applying some resources, but mainly by adjusting current programs, the United States could assist the democratic government of Brazil not only improve the economic basis of the country but solidify the foundations of democratic institutions at the same time.

The foundation of this program is to assist Brazil reduce the outflow of capital in the form of interest on its foreign debt. While it is also important for the United States to protect the investments of its corporations and the loans of its banks, the long term effect of a program to restructure the debt is in the interest of all. This may include some loan

forgiveness. U.S. influence in the World Bank and the International Monetary Fund will assist in the reduction of annual servicing costs thereby allowing those funds to be internally invested. This will provide industrial expansion, greater exports and therefore greater revenues with which to pay foreign debts. Not only is an economically strengthened Brazil important from a world order perspective, but will provide greater trade opportunities for U.S. firms.

The second facet of the economic program is the elimination of trade restrictions between the two countries. Elimination of trade restrictions will cause some internal problems for the United States and some assistance will have to be provided for disadvantaged businesses that are no longer able to compete. This assistance could be in the form of funding to convert to different crops or products. Tax incentives could also be established to further alleviate the loss of protective policies. The effect of the elimination of trade barriers would greatly benefit Brazil and other agricultural exporters.

The third aspect of the U.S. economic program is focused internally. This country must take bold and prompt steps to reduce the U.S. debt. The reduction of the debt is important to Brazil for two reasons. First, the reduction of U.S. debt will reduce the world wide requirements for loans and will, in turn, tend to reduce interest rates. Lower interest rates will benefit debtor nations as they borrow additional funds or as they pay existing debt that is linked to current interest

rates. Secondly, in a time when U.S. dominated banks are dictating economic measures to debtor nations as a requirement for new loans or rescheduling of old ones, it is necessary to demonstrate U.S. resolve and leadership as we solve the same problems that face Brazil.

The final segment of the economic program is a revitalization of the Alliance for Progress. It is important to assist the democratic government of Brazil provide for the basic needs of its people as it solves the economic problems described in Chapter II. An expanded Peace Corps, focused on the slums that surround the large cities as well as the drought ravaged Northeast, is the cornerstone of this program. These volunteers should help provide clean water, sanitation and disease prevention. This is a low cost, high visibility, high payoff program that could greatly benefit Brazil and buy time for the government as it attempts to solve the economic problems facing the country.

POLITICAL STRATEGY

It is important to recognize that much of the criticism that the United States receives throughout the world is based on the inconsistency of its foreign policy. Some of this inconsistency is a reflection of the type of government that we have and the fact that the government reflects the will of the people, and the will of the people is always changing. Historically, our difficulities with Brazil have resulted from the overzealous and blundering implementation of policies.

Examples include nuclear nonproliferation and human rights and were covered earlier. Our political aim is the preservation and strengthening of democratic institutions. The United States can help strengthen the economic foundations and can encourage and assist in the promotion of commonly held values such as human rights. By remaining sensitive to Brazilian sovereignty concerns, we can preserve a solid relationship.

DEFENSE STRATEGY

Brazil is a major military force in the hemisphere and, considering her growing arms industry, should be considered a potentially significant military ally. Current relationships with the United States are friendly but are carefully limited to low visibility exchanges, with the exception of UNITAS. We should improve the relations between our armed forces, focus on unit exercises and continue to capitalize on a diverse program of personnel exchanges.

Brazil is currently perceived by her Latin American neighbors as well as those outside of the continent as a benign military threat.[1] As a result none of her neighbors are engaging in extensive military buildups, although all outspend Brazil as a percentage of GDP. Consequently, Brazil does not perceive a military threat to her own security. This allows the leadership of the government to continue a policy of limited military spending which, in turn, allows the concentration of resources on economic goals. This strategy is not contrary to our interests and we should accept it.

Current IMET funding provides for only minimal training opportunities between the two countries and does not afford the opportunity for expansion. The first enhancement to U.S. policy must be a significant increase in the amount of this funding. This training should concentrate on low intensity conflict operations with exchanges with U.S. Army Special Operations Forces, light and airborne units. Additional training opportunities exist between naval units of both countries and should focus on coastal, antisubmarine and brown water operations. Opportunities for air force exchanges are likewise abundant and could include Red Flag training for Brazilian pilots.

Additional enhancements to our military policy should include an acceptance of the Brazilian arms industry and a recognition of the potential that it represents. Peacetime contracting would be a major step toward closer relations as well as an enhancement to the Brazilian economy. The resultant expansion of the arms industry would also increase the mobilization potential of the country.

Brazil's emergence as a world power is still in the future. It has not come as quickly as some projected in the 1960s, but it will come. If provided with the assistance of a rejuvenated U.S. policy as described earlier, she could be a major economic power within twenty years and a military power within thirty. Given her economic and military strength, and her strategic location astride the South Atlantic shipping lanes and bordering all but two of the countries in South

America, it is essential that the United States cultivate and nurture a friendship with this country. The future may very well depend on what we do in the next ten years, or perhaps what we don't do, if we don't seize the opportunity to improve and expand our relations with the "sleeping giant."

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